

Message Text

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43

ACTION EUR-25

INFO OCT-01 ISO-00 L-03 EB-11 COME-00 TRSE-00 HEW-08

CIAE-00 INR-11 NSAE-00 RSC-01 DRC-01 /061 W

----- 072844

R 271458Z AUG 74

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 1964

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E.O. 11652: N/A

TAGS: BGEN ETRD UR

SOVIET TAXATION OF AMERICAN BUSINESSES

REF: A) STATE 186078; B) MOSCOW A559, OCT 27, 1973;

C) MOSCOW 1923, FEB 21, 1973

1. AMERICAN COMPANY REPRESENTATIVES RESIDENT MOSCOW PAY NO INCOME OR OTHER PERSONAL TAXES TO EITHER LOCAL OR CENTRAL ORGAN OF SOVIET GOVERNMENT. WHILE THIS EXEMPTION APPEARS HAVE NO BASIS IN SOVIET LAW, TO EMBASSY'S KNOWLEDGE FOREIGN BUSINESS REPRESENTATIVES HERE HAVE AS MATTER OF PRACTICE NEVER BEEN APPROACHED BY LOCAL AUTHORITIES FOR TAXES ON SALARIES OR OTHER INCOME. EXECUTIVE SECRETARY OF JOINT US-USSR COMMERCIAL COMMISSION, R. G. GORBUNOV, INFORMED EMBASSY AUGUST 26 THAT "IT IS NOT EXPECTED" THAT USSR WILL IMPOSE SUCH TAXES ON RESIDENT REPRESENTATIVES OF ACCREDITED FIRMS IN FORESEEABLE FUTURE.

2. AS DEPT AWARE, U.S. NEWS CORRESPONDENTS RESIDENT MOSCOW ARE SUBJECT TO SOVIET INCOME TAX. FLAT RATE OF 13 PERCENT IS APPLIED TO NEWSMEN, WHOM SOVIET LAW DEFINES AS "SALARIED EMPLOYEES." IF AMERICAN BUSINESS REPRESENTATIVES WERE REQUIRED PAY LOCAL INCOME TAX, THEY MIGHT BE CLASSIFIED EITHER UNDER THIS HEADING (THUS SUBJECT TO SAME TAX RATE) OR AS PROFESSIONALS. INCOME TAX RATE SCALE APPLIED TO PROFESSIONALS IS 45 PERCENT OF FIRST SEVEN THOUSAND RUBLES

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INCOME PLUS 69 PERCENT OF ALL ADDITIONAL INCOME. REF C

PROVIDES FURTHER INFO ON SOVIET INCOME TAXES IN GENERAL.

3. INDIRECT TAXES PAID BY RESIDENT BUSINESSMEN INCLUDE TURNOVER TAX ON ALL ITEMS PURCHASED FOR RUBLES AS WELL AS "SERVICE CHARGE" IMPOSED BY UPDK (STATE SERVICE BUREAU DEALING WITH FOREIGNERS). AMERICAN BUSINESS REPRESENTATIVES HAVE SAME ACCESS TO HARD-CURRENCY STORES AS RESIDENT FOREIGN DIPLOMATS AND, LIKE DIPLOMATS, MUST REQUEST ALL SERVICES ORIGINATING WITHIN SOVIET ECONOMY THROUGH UPDK. COMMENTS PARAS 1 AND 2 OF REF B APPLY EQUALLY TO U.S. GOVT EMPLOYEES AND TO RESIDENT U.S. BUSINESSMEN.

4. ALTHOUGH U.S. BUSINESS REPRESENTATIVES INITIALLY BRING IN PERSONAL EFFECTS AND OFFICE EQUIPMENT FREE OF CUSTOMS DUTIES PER CONDITIONS SET FORTH ATTACHEMENT TO LETTER OF SOVFONTRADE MINISTER PATOLICHEV TO COMMERCE SECRETARY PETERSON DATED OCTOBER 18, 1972, SUBSEQUENT UNACCOMPANIED SHIPMENTS OF PERSONAL AS WELL AS OFFICE SUPPLIES ARE SUBJECT TO CUSTOMS CHARGES. LATTER RANGE FROM 50 KOPECK (\$.67) PER KILO IMPORT TAX XEROX PAPER TO 400 PERCENT DUTY ON KNITTED CLOTHING, 100-200 PERCENT ON CHOCOLATE AND FOOD CONCENTRATES, 200 PERCENT DUTY ON SNOW TIRES FOR AUTOMOBILES. SUCH CHARGES HAVE NO RELATIONSHIP TO AVAILABILITY SIMILAR MERCHANDISE FROM SOVIET DOMESTIC SOURCES. REPEATED EFFORTS HAVE NOT SUCCEEDED IN SECURING COPY OF SOVIET CUSTOMS REGULATIONS.

5. IN PRACTICE, AMERICAN BUSINESS REPRESENTATIVES TRAVEL TO WESTERN EUROPE SEVERAL TIMES PER YEAR. ON SUCH OCCASIONS, THEY PURCHASE HIGH-DUTY ITEMS LIKE CLOTHING ABROAD, BRING THEM BACK AS PERSONAL LUGGAGE AND THUS AVOID PAYING CUSTOMS DUTIES, SINCE CUSTOMS OFFICIALS WHO PROCESS INCOMING PASSENGERS PAY ONLY PERFUNCTORY ATTENTION TO FOREIGNERS RESIDENT IN MOSCOW.

6. ACTUAL CUSTOMS DUTIES CHARGED FOR UNACCOMPANIED SHIPMENTS TO U.S. BUSINESS REPRESENTATIVES IN MOSCOW DEPEND RATHER ON PERSONAL TIE BETWEEN EACH AMERICAN AND INDIVIDUAL CUSTOMS OFFICERS THAN ON SOVIET REGULATIONS. THOSE BUSINESSMEN WHO REMEMBER SEND SUITABLE MEMENTOS TO CUSTOMS OFFICIALS LIMITED OFFICIAL USE

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ON APPROPRIATE OCCASIONS (I.E., BOTTLE OF IMPORTED BRANDY BEFORE EACH MAJOR SOVIET HOLIDAY) OR WHO SPEAK FLUENT RUSSIAN AND TAKE PAINS TO TREAT CUSTOMS OFFICES WITH COURTESY HAVE LITTLE DIFFICULTY IN HOLDING CUSTOMS CHARGES TO MINIMUM.

7. IF U.S. GOVT GRANTS TAX EXEMPTION TO STAFF MEMBERS SUCH ORGANIZATIONS AS KRPC, EMBASSY ANTICIPATES THAT

SOVIETS WILL CONTINUE REFRAIN FROM LEVYING INCOME TAX ON
U.S. BUSINESS REPRESENTATIVES IN MOSCOW. IF EXEMPTION
FOR KRPC STAFF IS REFUSED, EMBASSY EXPECTS SOVIETS WILL HOLD OFF
IMPOSING INCOME TAX ON AMERICAN BUSINESSMEN HERE PENDING
NEXT MEETING OF JOINT COMMERCIAL COMMISSION, WHERE THEY
WILL RAISE ISSUE OF PRINCIPLE AND NOTIFY AMERICAN
SIDE THAT IN EVENT CONTINUED U.S. REFUSAL OF TAX EXEMPTION
TO KRPC, GOVT OF USSR WILL BE CONSTRAINED COLLECT SOVIET
INCOME TAXES FROM AMERICAN COMPANY REPRESENTATIVES IN
MOSCOW. WHICH OF TWO POSSIBLE RATES DESCRIBED PARA 2
ABOVE SOVIETS MIGHT CHOOSE TO APPLY WOULD PRESUMABLY
REFLECT DEGREE OF PRESSURE THEY THEN WISH TO APPLY TO
AMERICAN SIDE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PERSONNEL, PRESS COMMENTS, PALESTINIANS, BUSINESS FIRMS, MEETINGS, INVESTIGATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: martinml
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MOSCOW13065
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740237-0054
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740815/aaaaamim.tel
Line Count: 129
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A) STATE 186078; B) MOSCOW A559, OCT
Review Action: RELEASED, APPROVED
Review Authority: martinml
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUN 2002 by cunninfx>; APPROVED <19 MAR 2003 by martinml>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: BGEN, ETRD, UR, US, AL
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005